The Manufacturer Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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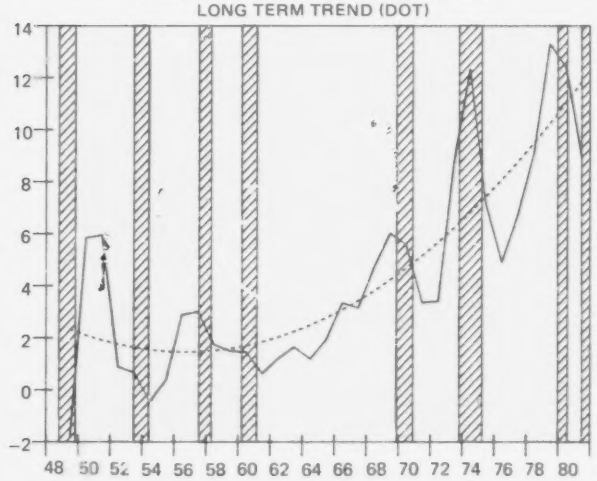
The Good News . . .

The best, if not the only favorable economic news of 1981 was the dramatic drop in the rate of inflation. Retail price increases (measured by the CPI) slowed by one-quarter compared with 1980 while producer prices (PPI) advanced at just slightly more than one-half the rate of the year before. No matter which measure is used, 1981's rise in prices was the smallest since 1977.

CHART I
CONSUMER PRICE INDEX
ANNUAL PERCENT CHANGE (LINE) VS.
LONG TERM TREND (DOT)



However, when compared with historical levels, last year's accomplishment pales. For example, the 8.9 per cent advance in consumer prices in 1981 is the fifth highest since 1950 and it is four times as high as the average rate which prevailed during the 20 years ending in 1970. This suggests that the battle against inflation is far from over. Inflation may be considered beaten only after it slows further from current rates and stays down in the years that follow—after the rebound in business activity gets under way.

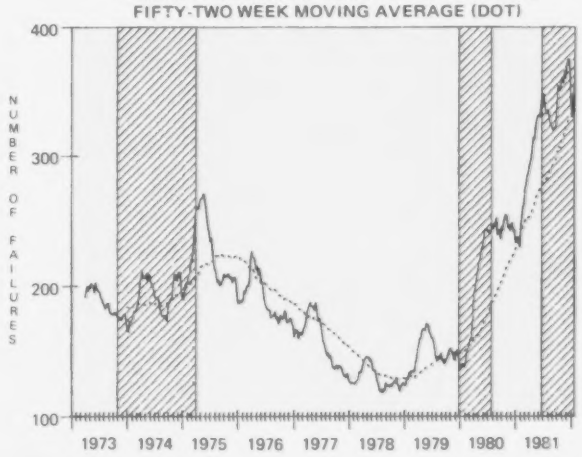
Further improvement in 1982 is likely. The current economic downturn, which began in July, 1981, and has not reached bottom yet, is expected to provide some additional relief. As Chart I indicates, depressed demand has traditionally dampened price rises, and the downward pressure usually continued into the subsequent recoveries. For example, the 1973-75 downturn kept inflation falling for nearly two years after its conclusion while the rate of inflation was down for at least one year following all other postwar recessions.

The longer term outcome will depend on the trend in the core rate of inflation—determined by wage gains offset by productivity improvements. Since 1965, the gains in compensation have continuously outpaced those in productivity, putting upward pressures on costs and prices. By 1981, this core rate of inflation was almost nine per cent. But starting in 1982, these cost increases should be restrained. Besides smaller wage increases, there should be increased investment in more efficient machines—aided by the recently implemented accelerated depreciation schedules, business tax reductions, favorable demographic trends and eventually, lower interest rates.

. . . And The Bad News

Although the decline in inflation is welcome news to the Administration as well as many consumers and businesses, the improvement has not come without cost. There was a sharp contraction in the nation's output of goods and services in the final quarter of 1981, accompanied by a rate of unemployment that nearly set a new postwar record and a dramatic rise in the number of business bankruptcies.

CHART II
BUSINESS FAILURES
THIRTEEN WEEK MOVING AVERAGE (LINE) VS.
FIFTY-TWO WEEK MOVING AVERAGE (DOT)



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Many businesses incurred sizable losses despite cutting wages of some workers or laying off others, as was the case in the auto, tire, construction, meatpacking, steel, trucking and airline industries. In many cases, companies were forced to close their doors permanently. In fact, according to Dun and Bradstreet, the number of business failures increased two and a half times between 1978 and 1981 (see Chart II). In 1981 alone, the number of bankruptcies was 44 per cent higher than in 1980 and so far this year they are up another 36 per cent. Retailers posted one of the biggest jumps in bankruptcies during this post-holiday period. They were forced to slash prices during the Christmas season to entice shoppers into stores, some cutting too deeply into their profitability.

Commodities' Producers Suffer . . .

Producers of such raw materials as metals, lumber, cotton and chemicals have seen some of the steepest price declines. Prices of these commodities traditionally react promptly to changes in supply and demand long before these effects filter through to finished goods. Raw industrial commodities' prices have declined at an annual rate of more than 20 per cent in the past six months. Prices of some primary metals have dropped below the cost of extracting them, causing shutdowns of many mines. In many other industries, manufacturers suspended operations as production costs exceeded prices.

While the rest of the population benefited from moderating food prices, farmers have been feeling

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/20/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.958	– 1.465	+ 6.252
Loans to Depository Inst.	.950	– .050	– .469
Float	6.762	+ 2.651	+ 3.112
Total Reserve Bank Credit	152.178	+ 1.354	+ 9.176
Treasury Deposits with Federal Reserve Banks	3.712	+ .643	+ .603
Currency Outside Banks	125.199	– 1.405	+ 7.154
Member Bank Reserves:			
Required	44.352	+ 2.177	+ 2.172
Excess (Deficiency)	.334	+ .140	– .173
Total Reserves Held	44.686	+ 2.317	+ 1.999
Net Borrowed Reserves	.546	– .207	– .243
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.430	– 1.376	+ 2.910
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1	450.5	+ 13.9‡	+ 7.2‡
M2 (December '81)	1,842.0	+ 12.4	+ 10.3
M3 (December '81)	2,187.4	+ 10.1	+ 11.3
L (September '81)	2,574.4	+ 11.4	+ 11.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 1/29/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.00%	12.25%	12.20%
* Federal Agencies	13.50	13.40	14.05
* Project Notes–Taxfree (46% Taxable Equivalent)	11.57	13.43	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	13.95	14.30	15.50

‡Finance Company Paper–Prime

5- 14 days	13.13%
15- 29 days	13.00
30- 59 days	13.25
60- 89 days	13.00
90-179 days	13.25
180-239 days	13.25
240-270 days	13.25

‡* Bankers' Acceptances

Feb.	13.35%
Mar.	13.35
Apr.	13.35
May	13.35
Jun.	13.35
Jul.	13.35

‡Industrial Paper–Prime

30- 89 days	13.[illegible]%
90-120 days	13.3[illegible]

†Federal Funds Effective Rate 14.10%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,985	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,496	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 5.2	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Dec '81	4.8%	6.0%	12.0%
Change in Producer Prices*	Dec '81	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons)†	Dec '81	97,188	98,025	97,282
Unemployment as % of Civilian Labor Force†	Dec '81	8.9%	8.4%	7.4%
Personal Income	Dec '81	$ 2,492	$ 2,486	$ 2,277
Leading Indicators Composite Index (1967=100)†	Dec '81n	129.4	128.6	136.4
Industrial Production Index (1967=100) †	Dec '81	143.3	146.4	150.4
Net Change in Consumer Installment Credit†	Nov '81	$ 0.34	$ 1.01	$ 0.84
U.S. Merchandise Trade Balance †	Nov '81	–$ 3.40	–$ 4.19	–$ 1.15
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Dec '81	978	863	1,535
New Construction Expenditures*	Nov '81	$ 230.3	$ 229.8	$ 234.3
Total Business Inventories†	Nov '81	$ 515.2	$ 511.7	$ 474.9
Total Business Sales†	Nov '81	$ 344.6	$ 345.3	$ 339.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

the pinch. Prices of agricultural commodities declined 13 per cent during 1981 as record harvests drove farm prices sharply lower while the cost of production rose by four per cent. As a result, the Agriculture Department's parity ratio—a measure of farmers' purchasing power—fell to its lowest level since the Great Depression.

. . . The Recession Deepens . . .

Real Gross National Product declined at a seasonally adjusted annual rate of 5.2 per cent in the fourth quarter, slumping once again below the level prevailing almost two years ago—at the onset of the 1980 recession. A close look at this steep decline—the fifth largest in more than 30 years—suggests still worse times ahead. Most importantly, for the third quarter in a row, there was a hefty accumulation of inventories. This occurred despite a 7.1 per cent reduction in production schedules since July. At the start of December the total business inventory-to-sales ratio rose to 1.50, the highest since the depths of the 1980 recession, suggesting that further output reductions are in store as businessmen attempt to trim inventories to more comfortable levels.

Real final sales slipped by 3.6 per cent during the quarter, representing more than two-thirds of the overall GNP drop. The declines were widespread, occurring in every major economic sector, with the exception of the Federal government, where spending was boosted by increased purchases of farm products by the Commodity Credit Corporation and

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/13/82)	133,022	+ 784	+20,410
New York City (1/13/82)	32,765	+ 715	+ 3,888
Commercial Paper (1/13/82)	164,876	+ 1,665	+37,166

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/82)	194,662	– 1,342	+21,100
New York City (1/13/82)	55,279	– 523	+ 3,727

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/82)	468,754	– 2,749	+39,002
New York City (1/13/82)	110,359	– 769	+ 8,151

Financial Markets

	Friday 1/29/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.40%	– .49	– 1.15
180-Day Bills†	13.80	– 1.01	+ .22
Longest Bills†	14.20	– .66	+ 1.72
Recent Issues:			
15s 1/31/84 (When Issued)	14.55	NA	
14 1/8s 12/31/85	14.40	– 1.25	
14 1/4s 11/15/91	14.35	– 1.23	
14s 11/15/11	14.05	– .49	
Municipals:			
Bond Buyer–20 Bond Index* (1/28/82)	13.15%	– .01	+ 3.24
Blue List Total ($ Million)	$ 802	+ $ 12	+ $ 172
30-Day Visible Supply ($ Million)	$1,385	– $536	– $ 311
Total	$2,187	– $507	– $ 139
Corporates:			
Moody's Aa Composite (1/28/82)	15.79%	– .03	+ 2.15
30-Day Visible Supply ($ Million)	$8,917	– $260	+ $5,204
Stocks:			
Dow-Jones Averages:			
Industrials	871.10	+ 26.07	– 76.12
Transportation	356.14	+ 14.11	– 46.02
Utilities	107.51	+ 3.45	– 5.31
65 Stocks	339.23	+ 11.27	– 31.13
Standard and Poor's 500 Stocks	120.40	+ 5.02	– 9.15
N.Y.S.E. Composite Index	69.39	+ 2.61	– 4.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	55,738	+ 9,318	+ 16,916

* 46% Taxable equivalent 24.35%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/29/82	Week Ago
Overnight	13.88%	13.75%
1 month	14.13	13.88
3 month	14.50	14.56
6 month	15.00	15.31
1 year	15.13	15.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.80%	14.95%
Long Term (7 to 15 yrs.)	15.05	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/29/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02544	39.31
Canada	.8361	1.1961
Denmark	.1319	7.5798
France	.1704	5.8685
Germany	.4331	2.3087
Italy	.0008076	1238.20
Japan	.004379	228.38
Mexico	.03757	26.615
Netherlands	.3949	2.5325
Switzerland	.5423	1.8440
U.K.	1.8825	.5312

by defense spending. Nonresidential fixed investment decreased by more than 11 per cent at an annual rate as producers' durable equipment purchases slumped by 15.4 per cent. Spending on residential construction tumbled by 28 per cent, at an annual rate, quarter-over-quarter.

Real personal expenditures, which account for two-thirds of the GNP, declined by about 1.8 per cent compared with the third quarter, paced by a 19 per cent drop in purchases of durable goods—most importantly automobiles. Consumers increasingly tightened their spending toward the end of the last quarter and curbed their use of credit—not surprising in view of the jump in unemployment and the slowing growth in personal incomes.

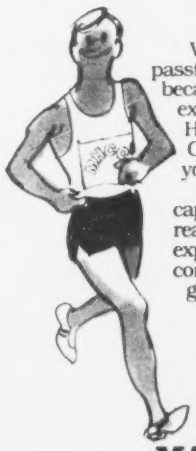
. . . Personal Income Growth Slows

As a matter of fact, wages and salaries declined in December. The drop in the number of people employed combined with the decrease in the average weekly hours worked resulted in a $0.7 billion decline in total wages and salaries compared with November. This was only the second time wages and salaries have declined since the 1973-75 recession. Manufacturing payrolls were hit the hardest, declining for the third month in a row. The greatest cutbacks occurred in motor vehicles, nonelectrical machinery and primary metals.

Depressing the growth in personal incomes was also the smaller increase in the growth of interest income in December. In response to lower interest rates, it expanded by only $2.3 billion compared with November—the smallest rise in 15 months. In the previous 12 months, interest income had been the fastest growing component of personal income, adding an average of $5 billion per month. ■

monetary muscle

Commercial financing to help manufacturers and distributors go the distance.



When opportunities are passing your company by because your cash pool is exhausted. Manufacturers Hanover Commercial Corporation can help you overtake them.

With MHCC as your capital source, you have the ready cash required to expand. As fast as orders come in, you deliver the goods, and you have the funds needed to cover suppliers.

By turning your accounts receivable into a steady cash flow, we see you through tight money periods. And with the monetary muscle of the $55-billion Manufacturers Hanover organization behind us, you can be sure we'll be around to deliver on the promises we make.

Come in and talk to our experienced team of cash and credit specialists. Our non-notification commercial financing program can help you pursue all sorts of opportunities.

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It's a capital source.

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